



POLYARD PETROLEUM INTERNATIONAL GROUP LIMITED
百田石油國際集團有限公司

(Stock Code : 8011)



2010

First Quarterly Report

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of Polyard Petroleum International Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- 1 the information contained in this report is accurate and complete in all material respects and not misleading;*
- 2 there are no other matters the omission of which would make any statement in this report misleading; and*
- 3 all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

FIRST QUARTERLY RESULTS

The board of directors (the “Board”) of Polyard Petroleum International Group Limited (the “Company”) would like to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 31 March 2010 together with the comparative unaudited figures for the corresponding period in 2009, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 31 March 2010

	Notes	Unaudited Three months ended 31 March	
		2010 HK\$'000	2009 HK\$'000
Turnover	3	—	1,689
Cost of sales		—	(1,648)
Gross profit		—	41
Other revenues		31	200
Administrative expenses		(4,858)	(3,824)
Share of results of associates		(5)	—
Operating loss		(4,832)	(3,583)
Finance costs	4	(6,625)	(6,106)
Loss before tax		(11,457)	(9,689)
Income tax	5	752	670
LOSS FOR THE PERIOD		(10,705)	(9,019)

		Unaudited	
		Three months ended	
		31 March	
		2010	2009
		<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Notes</i>			
Attributable to:			
	Owners of the Company	(10,509)	(9,015)
	Non-controlling interests	(196)	(4)
		(10,705)	(9,019)
Dividend	6	—	—
Loss per share			
Basic (<i>in HK cents</i>)	7	(0.972)	(0.834)
Diluted (<i>in HK cents</i>)		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2010

	Unaudited Three months ended 31 March	
	2010 HK\$'000	2009 HK\$'000
Loss for the period	(10,705)	(9,019)
Other comprehensive income:		
Exchange difference arising on translation of foreign operations	(48)	—
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(10,753)	(9,019)
Attributable to:		
Owners of the Company	(10,557)	(9,015)
Non-controlling interests	(196)	(4)
	(10,753)	(9,019)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2010

	Unaudited									
	Issued capital	Share premium	Special reserve	Warrant reserve	Convertible bonds reserve	Exchange reserve	Retained profits	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009 (Audited)	10,816	359,974	985	4,423	62,370	15	140,039	578,622	591	579,213
Loss for the period	—	—	—	—	—	—	(9,015)	(9,015)	(4)	(9,019)
Issuance of convertible bonds to satisfy balance of consideration for acquisition of interests in a subsidiary	—	—	—	—	4,890	—	—	4,890	—	4,890
Deferred tax liabilities on issuance of convertible bonds	—	—	—	—	(806)	—	—	(806)	—	(806)
At 31 March 2009	10,816	359,974	985	4,423	66,454	15	131,024	573,691	587	574,278
At 1 January 2010 (Audited)	10,816	359,974	985	—	66,454	15	49,305	487,549	564	488,113
Loss for the period	—	—	—	—	—	—	(10,509)	(10,509)	(196)	(10,705)
Other comprehensive income for the period	—	—	—	—	—	(48)	—	(48)	—	(48)
Total comprehensive income for the period	—	—	—	—	—	(48)	(10,509)	(10,557)	(196)	(10,753)
At 31 March 2010	10,816	359,974	985	—	66,454	(33)	38,796	476,992	368	477,360

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

The Company was incorporated in the Cayman Islands on 6 March 2002 as an exempted company under the Companies Law of the Cayman Islands. The shares of the Company were listed on GEM on 12 July 2002.

The Group is principally engaged in the exploration, exploitation and production of coal, oil and natural gas and trading of petroleum-related products.

2. Basis of preparation

The unaudited condensed consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the GEM Listing Rules.

The unaudited condensed consolidated results have been prepared under the historical cost convention, except for interests in associates and jointly controlled entities and certain financial instruments which are measured at fair value.

The accounting policies adopted for preparing the unaudited condensed consolidated results are consistent with those followed in the preparation of the annual financial statements for the year ended 31 December 2009.

3. Turnover

Turnover represents the net invoice value of products sold after allowances for returns and trade discounts.

	Unaudited Three months ended 31 March	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sales of petroleum-related products	—	1,689

4. Finance costs

	Unaudited Three months ended 31 March	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Effective interest on convertible bonds	6,619	6,106
Bank interest	6	—
	6,625	6,106

5. Income tax

	Unaudited Three months ended 31 March	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Current tax		
— Hong Kong	—	—
— Other jurisdictions	—	—
Deferred tax	752	670
Income tax credit for the period	752	670

No provision for Hong Kong profits tax has been provided as there was no assessable income in Hong Kong during the period (2009: Nil). Taxes on profits assessable in other jurisdictions are calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Deferred tax for the period represents income tax recognised on reversal of temporary differences arising from convertible bonds.

No deferred tax has been recognised on loss for the period (2009: Nil) due to unpredictability of future taxable profits that will be available against which the tax losses can be utilised.

6. Dividend

The Board does not recommend the payment of a dividend for the period (2009: Nil).

7. Loss per share

The calculation of the basic loss per share is based on the following data:

	Unaudited Three months ended 31 March	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period attributable to owners of the Company	(10,509)	(9,015)
Loss for the period for calculation of basic loss per share	(10,509)	(9,015)
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares in issue for the period	1,081,600	1,081,600

Pursuant to an ordinary resolution passed on 15 March 2010, every five ordinary shares of HK\$0.002 each in the issued and unissued share capital of the Company were consolidated into one consolidated ordinary share of HK\$0.01 each in the issued and unissued share capital of the Company. The calculation of the basic loss per share is based on the number of ordinary shares which are assumed to have been consolidated throughout the periods ended 31 March 2010 and 2009.

No diluted loss per share is presented as the conversion of the outstanding convertible bonds of the Company is anti-dilutive.

8. Event after the reporting date

- (a) Pursuant to a resolution passed in the extraordinary general meeting on 15 March 2010, the rights issue was completed on 8 April 2010 and 540,800,000 rights shares were allotted and issued at a subscription price of HK\$0.20. The rights shares rank pari passu in all respects with the existing shares of the Company.
- (b) The Board announced that on 19 April 2010, Win Easy International Limited, a wholly-owned subsidiary of the Company, entered into a Share Purchase Agreement with Mr. Lam Nam, a substantial shareholder of the Company, for the acquisition of the entire issued shares of Mass Leader Inc., the entire issued share capital of which was beneficially owned by Mr. Lam Nam, for a total consideration of HK\$80,000,000. Save for a cash deposit of HK\$5 million, the consideration will be satisfied by the Company by issuing convertible notes, which are convertible into shares of the Company at a conversion price of HK\$0.185 per conversion share.

9. Comparative figures

Certain comparative figures have been reclassified to conform with current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

For the three months ended 31 March 2010, the Group had generated no turnover, as compared with approximately HK\$1,689,000 for the three months ended 31 March 2009 as a result of sluggish sales of petroleum-related products.

The Group recorded a net loss attributable to owners of the Company of approximately HK\$10,509,000 for the period as compared to a net loss attributable to owners of the Company of approximately HK\$9,015,000 for the corresponding period last year.

Administrative expenses for the period amounted to approximately HK\$4,858,000, representing an increase of approximately HK\$1,034,000, or 27%, as compared with the corresponding period last year. It was mainly attributable to the increase in overseas travelling expenses and staff costs necessitated by heightened project activities.

Finance costs for the period amounted to approximately HK\$6,625,000 (2009: approximately HK\$6,106,000). The increase in interest costs was mainly due to the fact that the HK\$12 million convertible bonds, which were issued in early February 2009, were outstanding for the entire first quarter in 2010.

The Group is engaged in the business of exploration and exploitation of energy and resources. As all projects are still in the exploratory phase, the Group would have to incur losses. Profitability will resume when the projects progress to the exploitative phase with output of commercial quantity.

Share Consolidation and Rights Issue

On 15 March 2010, the Company convened an extraordinary general meeting during which resolutions were passed to approve (i) rights issue at the subscription price of HK\$0.20 per rights share on the basis of one rights share for every two existing shares; and (ii) share consolidation to consolidate every five existing issued and unissued shares into one consolidated share. Details of the rights issue and share consolidation were published in the Company's circular and prospectus issued to shareholders on 26 February 2010 and 16 March 2010 respectively.

As a result of the share consolidation and rights issue, (i) the conversion price of convertible bond in the principal amount of HK\$276,352,231.22 has been adjusted from HK\$0.43 per share to HK\$1.792 per consolidated share, and (ii) the conversion price of convertible bond in the principal amount of HK\$120,000,000 has been adjusted from HK\$0.048 per share to HK\$0.216 per consolidated share, with effect from 16 March 2010. For details, please refer to the Company's report published on 16 March 2010.

Proposed Transfer of Listing

The Company submitted a formal application to the Stock Exchange on 6 January 2010 for the proposed transfer of listing of the shares from GEM to the Main Board of the Stock Exchange based on Chapter 9A of the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules"). On 11 March 2010, the Company received a letter from the Stock Exchange which stated that the Company did not fulfill the listing eligibility requirements under Rules 18.02(1) and 18.09(8) of the Listing Rules and decided to reject the application. After due consideration, the Board decided that it would not have the decision to be reviewed by the Main Board Listing Committee. However, the Board is committed to continue to further explore the feasibilities of the proposed transfer upon further progress of the Group's projects. For details, please refer to the Company's report published on 1 April 2010.

Prospects

Brunei Block M Oil and Gas Project

The Oil and Gas Project in Brunei has been progressing in accordance with the 2010 work program and budget approved by Brunei National Petroleum Company Sdn. Bhd. The 2009 acquisition of 2D and 3D seismic surveys has been completed. A comprehensive basin analysis study was substantially completed in the first quarter of 2010, which will be followed by data interpretation to be completed by the end of second quarter. Seismic 3D acquisition to be acquired in 2010 will cover approximately 131 sq.km. The acquisition will last for approximately 7 months and its mobilization will begin in mid-May. Road works which comprise the upgrading of the existing 3.6 km of logging road and building of access road to the well-site have begun with the clearing of the forest area at the well-site location. Drilling of the first well (Marwar-1) will start in July for a month to be followed by the second well in late August 2010. Production is expected to take place in the third quarter of 2010.

Philippines Central Luzon Gas Project

Exploration programs of the Gas Project, which are favorably recognized by Department of Energy of the Philippines ("DOE"), have proceeded as planned. Re-interpretation of seismic data and prospect evaluation will be carried out in the second quarter of 2010. A permission to extend the exploration period of the project was granted by DOE to guarantee sufficient time for comprehensive analysis of the basin and determination of the location of the first exploratory well. Preparation work for drilling will be undertaken in the third quarter of 2010.

Philippines San Miguel Coal Mine Project

The project has proceeded into the development phase. The phase one road construction has been completed. The phase two road construction is underway. It will extend the vehicle-assessable-road into the initial mining area and is expected to be completed during the second quarter of 2010, and after that coal extraction from the open pit will commence.

Large scale topographic survey and mapping have been processed and completed. Evaluations of small-scale mining tests have shown that the reserves contained in the primary strip mining area are sufficient for multiple years' production. Our experts are in the process to prepare detailed operations designs for commercial production.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 March 2010, none of the Directors and chief executives of the Company had any interests and/or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register referred to therein pursuant to Section 352 of the SFO, or which were required, pursuant to Rule 5.48 to 5.67 of the GEM Listing Rules relating to the securities transactions by Directors, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND/OR UNDERLYING SHARES OF THE COMPANY

As at 31 March 2010, the interests and short positions of persons, other than Directors or chief executives of the Company, in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholders required to be kept by the Company under Section 336 of the SFO were as follows:

Name of person	Number of shares held (Note 1)	Capacity	Approximate percentage of interest
Lam Nam	266,600,000 (Note 2)	(L) Interest of a controlled corporation	24.65%
	154,214,415 (Note 4)	(L) Beneficial owner	14.26%
	555,555,556 (Notes 3 and 4)	(L) Interest of a controlled corporation	51.36%
Silver Star Enterprises Holdings Inc. (Note 2)	266,600,000	(L) Beneficial owner	24.65%
China International Mining Holding Company Limited (Note 3)	555,555,556 (Note 4)	(L) Beneficial owner	51.36%

Notes:

- 1 The letter “L” denotes long positions in shares or underlying shares.
- 2 The entire issued share capital of Silver Star Enterprises Holdings Inc. is beneficially owned by Mr. Lam Nam.
- 3 The entire issued share capital of China International Mining Holding Company Limited is beneficially owned by Mr. Lam Nam.
- 4 These shares may be allotted and issued upon exercise of the conversion rights attaching to the convertible bonds issued by the Company.

Save as disclosed above, as at 31 March 2010, the Directors were not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEMES

Pursuant to the pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) adopted by the Company on 26 June 2002, certain Directors and participants have been granted options to subscribe for shares at an exercise price of HK\$0.002 per share. All of these share options granted were exercised or lapsed in or before 2008.

No share options under the share option scheme (the “Share Option Scheme”) adopted by the Company on 26 June 2002 were granted, exercised or lapsed during the period.

Details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in the Prospectus issued by the Company on 5 July 2002.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the period were rights to acquire benefits by means of acquisition of shares in or debentures of the Company or of any other body corporate granted to any Directors, their respective spouses or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouses or children under 18 years of age to acquire such rights in the Company or any other body corporate.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company was not aware of any non-compliance with the required standard of dealings and the code of conduct regarding securities transactions throughout the period ended 31 March 2010.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

COMPETING INTERESTS

During the period, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the period, the Company has complied with the requirements of the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference pursuant to the GEM Listing Rules. The duties of the Audit Committee include reviewing and monitoring the financial reporting procedures and internal control system of the Group. Following Mr. Chan Kin Cheong's resignation as an independent non-executive Director on 4 May 2010, the number of the Company's independent non-executive Directors and that of the Members of the Audit Committee have decreased below the minimum number as required respectively by the Rules 5.05(1) and 5.28 of the GEM Listing Rules. The Board will announce the appointment of a new independent non-executive Director and a new member to the Audit Committee as soon as possible and in any event within the time period set forth in Rule 5.06 and 5.33 of the GEM Listing Rules.

As at 31 March 2010, the Audit Committee comprised three independent non-executive Directors, namely Mr. Wang Yanhui, Mr. Chan Kin Cheong and Mr. Pai Hsi-Ping.

The unaudited condensed consolidated results of the Group for the period have been reviewed by the Audit Committee, which is of the opinion that such unaudited condensed consolidated results complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

For and on behalf of the Board

Kuai Wei

Chairman

Hong Kong, 11 May 2010

At the date of this report, the Board comprises four executive Directors, namely Mr. Kuai Wei, Mr. Cao Xuejun, Mr. Lin Zhang and Mr. Zhang Xiaobao and two independent non-executive Directors, namely Mr. Wang Yanhui and Mr. Pai Hsi-Ping.